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In the
IN THE SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1998

Robert Meece d/b/a American Wholesale Jewelry, Petitioner

v.

Rolex Watch U.S.A., Inc., Respondent

On Petition for a Writ of Certiorari to the
United States Court of Appeals
for the Fifth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether an independent jewelry wholesaler should be enjoined from the practice of selling new Rolex watches that have been enhanced by the addition of a generic part.

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Robert Meece d/b/a American Wholesale Jewelry, Petitioner

v.

Rolex Watch U.S.A., Inc., Respondent

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATE COURT OF FOR THE FIFTH CIRCUIT

Robert Meece d/b/a American Wholesale Jewelry respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Fifth Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App., infra, 1a- 34a) is reported at 158 F.3d 816. The opinions of the district court (App., infra, 40a-43a) are unreported.

JURISDICTION

The Court of Appeals entered its judgment on October 21, 1998 (App., *infra*, 34a-35a). The Court of Appeals denied Petitioner's Petition for Panel Rehearing on November 19, 1998.

(App., *infra*, 37a-38a). The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The statutory provisions involved are as follows: 15 U.S.C. § 1114, 15 U.S.C. § 1117(b), and 15 U.S.C. § 1125.

STATEMENT

A. Background of the Case

Robert Meece doing business as American Wholesale Jewelry (hereinafter referred to as "Meece") operates a sole proprietorship known as American Wholesale Jewelry which sells new and used watches and sells and/or installs generic replacement parts such as custom made dials, bezels, crystals, links, replacement bands, and other accessories for various brands of watches.

Meece sells his products and provides his services to retail jewelers; he does not deal with consumers. In a typical transaction, a consumer will request products or services from their jeweler, who, in turn, orders Meece's products or services. Meece provides the products or services to the jeweler who then delivers it to the consumer. Meece deals only with the jeweler, who is a sophisticated purchaser of the types of products and services marketed and sold by Meece. (Meece Tr. 1A pp.61, 69; 1B pp.84, 86, 104, 105; 2, p.19; R.E. 4, p.5 ¶23,24, 26; R. p. 806; PI pp.67, 68, 102).

Consumers purchasing watches enhanced by Meece are "sophisticated purchasers" and realize that they are purchasing a Rolex watch that has been enhanced and are not likely to be confused. (Meece Tr. 1A p. 69; 2, p.19; McCarthy Tr. 1B pp.84, 86).

Consumers with complaints about Meece's goods or services can locate him or the jeweler with whom they dealt. Consumers know where they purchased the goods or services; the jeweler knows where their orders were filled. (Meece Tr. 1B p.66). Consumers will look to the party from whom the watch was purchased if any problems arise with their watch. Meece warrants all products for one year and will repair any products delivered to him within a year. (Meece Tr. 1B p.66).

In 1983, Meece began sending his catalogs annually to every jeweler in the United States, including authorized Rolex dealers. Some of these dealers notified Rolex of Meece's business and forwarded Meece's advertisements to Rolex. (Meece Tr. 1B pp.115, 126).

As a result, Rolex began communicating with Meece and exchanged several letters with him from 1983 until just prior to the filing of this matter. In these letters, Rolex complained about Meece's advertisements and set out guidelines for him to follow in advertising. Meece responded to each of the letters, explaining his advertising and outlining the changes he was making to comply with Rolex's demands. (PX-45, 46, 47,48, 49, 50; Meece Tr. 1B p.118). (Meece Tr. 1B pp.120-122). (PX-52) (PX-53)(PX-54) (Meece Tr. 1B pp.123-124) (DX-11) (Meece Tr. 1B p. 124).

Meece always cooperated with Rolex and always tried to follow their directives to the best of his ability. (PI pp.74-75, 78-79). All of his letters to Rolex set out the steps he took to comply with their requests. None of the letters sent by Meece to Rolex contain any misrepresentations.

As found by the Trial Court,"American Wholesale and Rolex have coexisted for more than 10 years with American Wholesale selling its generic replacement parts;" and American Wholesale "has average gross annual sales of $4,200,000." (PI p.69; R.E. 4, p.4 ¶21; R. 805) The business is Meece's sole livelihood and while following Rolex's directions, he has invested

more than 12 years of his time and hundreds of thousands of dollars in it. (Meece Tr. 1B pp. 123, 124, 129).

B. Course of Proceedings and Disposition Below

Rolex asserted several causes of action against Meece, including a request for a preliminary injunction, which was denied in part and granted in part. (PI Order; R. pp. 263-272). In its Final Judgment and Permanent Injunction (App., infra, 40a-42a), Meece was enjoined from "performing any services which would involve injecting into commerce a watch bearing a Rolex mark which is reconstructed with generic replacement parts and which simulates a Rolex submariner or other Rolex watch" and was enjoined from placing customers' Rolex clasps on generic bands and accompanying modified Rolex watches with copies of instructions bearing Rolex marks. All other relief requested by Rolex was denied.

Rolex presented various issues for review on appeal, including whether Meece's sale of new Rolex watches, enhanced or repaired using generic replacement parts, violated 15 U.S.C.1117(b). In making its determination, the Court of Appeals interpreted the Trial Court's injunction as prohibiting Meece's sale of enhanced new watches. Meece interpreted the injunction as prohibiting the sale of converted watches (taking a stainless steel Rolex watch and completely reconstructing it to simulate a more expensive Rolex watch) but not affecting the sale of watches that have been merely enhanced or repaired with a generic replacement part.[1]

---

[1] Meece voluntarily ceased performing conversion services prior to a hearing on a preliminary injunction in the case on August 18, 1995. (Meece Tr. 1B p.21; PX-59; R.E. 4, p.6 ¶34; R. p. 807). Meece sold only 2 converted watches before ceasing this activity. (Meece Tr. 1B pp.21, 112).

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The Court of Appeals stated that the injunction "would seem to encompass both enhanced new watches *and* converted used watches, because both types contain generic replacement parts and simulate genuine Rolex watches." The Court of Appeals further stated that "Considering all of the evidence and, especially, the district court's findings regarding the likelihood of confusion with respect to secondary purchasers, we interpret the injunction as prohibiting the sale of enhanced new watches *and* converted used watches. That interpretation is also supported by case law interpreting the Lanham Act as prohibiting a party from making changes in integral parts of a product and selling the modified product under the original trademark without full disclosure."

The Court of Appeals vacated the Trial Court's judgment with respect to findings that Meece's profits on infringing sales are *de minimis* and that his mark is not sufficiently similar to be likely to cause confusion with the Rolex mark and with respect to the conclusion that Rolex is not entitled to recover profits and attorneys fees. The Court affirmed the Trial Court's judgment in all other respects and remanded the case for further proceedings consistent with its opinion.

Meece's Petition for Panel Rehearing, which challenged the Court of Appeals' interpretation of the injunction as prohibiting the sale of enhanced new watches, was denied on November 19, 1998.

REASONS FOR GRANTING THE PETITION

I. The Question Presented is Important

The Court of Appeals' interpretation of the injunction prohibits Meece from selling all Rolex watches, new or used, which have been enhanced by the addition of a generic part, no matter how non essential or minute the part or why the consumer requested the part. Meece is also prohibited from repairing Rolex

PUBLISHER'S NOTE:

Page number(s) 6 could not be located.

Rolex in any way. Neither the Rolex name nor the Crown Mark are used by Meece in any of the advertisements unless it appears on an actual Rolex watch which has been enhanced. (Meece Tr. 1B p. 114; DX: 15-18; PX:3-6).

The written warranty provided by Meece and shipped with each watch states clearly that his products are generic products of American Wholesale Jewelry and not a product of Rolex. Meece's disclaimer and advertising state that American Wholesale Jewelry is not an official dealer or affiliated with Rolex in any way and that the addition of diamonds, custom dials, generic or replacement parts will void Rolex's warranty. It further states that all accessories, watch and replacement parts are guaranteed by American Wholesale Jewelry, further notice that such products are not Rolex watches. (DX- 11).

His enhanced watches are easily distinguishable from Rolex watches sold without enhancements and not likely to confuse the public.

Meece's accessories do not contain the Rolex name or mark and are readily distinguishable from Rolex's products. Meece's diamond bezels do not look like Rolex's bezels. (Meece Tr. 1A p.62). Rolex bezels are stamped with the Rolex trademark. (Meece Tr.1A p.67, Vol. II p. 16). Meece's bezels come in sizes, shapes, and settings different than those of Rolex and the shape of the diamonds are also different. (PX-34; Meece Tr. 2 pp.14-15; DX-36, DX-37).

The settings for Meece's diamonds do not have the same appearance as those of Rolex. (Meece Tr. 1A p.62). Meece's settings are larger than Rolex settings and the diamonds point in different directions on the two settings. (Meece Tr. 2 p.13) Markers and radium dots are removed from Rolex watches before Meece can add diamonds. (Meece Tr. 2 pp.12-14).

Meece's replacement watch bands are marked with his insignia and "Made in Italy." (Meece Tr. 1A pp.63, 70). Rolex's

watch bands contain Rolex's mark and name, a flourish type design, other marks on the end pieces and the terms "Swiss Made" and "Geneve." (Meece Tr.1A p.67; 1B p.25; 2 p.6; See also, DX: 28-33).

II. The Decision of the Court of Appeals is Erroneous

In deciding that the injunction prohibits Meece's sale of enhanced new watches, the Court of Appeals seemingly disregards the disclosures made by Meece and the fact that purchasers are not likely to be confused.

The Court of Appeals stated that the injunction "would seem to encompass both enhanced new watches *and* converted used watches, because both types contain generic replacement parts and simulate genuine Rolex watches." The Court of Appeals further stated that "Considering all of the evidence and, especially, the district court's findings regarding the likelihood of confusion with respect to secondary purchasers, we interpret the injunction as prohibiting the sale of enhanced new watches *and* converted used watches. That interpretation is also supported by case law interpreting the Lanham Act as prohibiting a party from making changes in integral parts of a product and selling the modified product under the original trademark without full disclosure."

Initially, as set forth above, Meece fully discloses the source and origin of all products he sells. Further, the trial court's finding regarding likelihood of confusion referred to by the Court of Appeals dealt with the confusion regarding watches that had been reconstructed or converted from a less expensive model Rolex watch into a watch that appeared to be a more expensive Rolex model by, for instance, taking a stainless steel Rolex and reconstructing it with generic parts so that it appears to be a Rolex Submariner. This confusion does not exist with a watch that has merely been enhanced or repaired by the addition of a generic part.

The Court of Appeals misinterpreted the Trial Court's injunction by not distinguishing between a converted watch and an enhanced watch and misapplied case law in this matter, specifically *Bulova Watch Co. v. Allerton Co.*, 328 F.2d 20 (7th Cir. 1964), which supports the prohibition of conversion activities but not enhancements.

In Bulova, the defendant removed genuine Bulova watch movements bearing the Bulova trademark on the dial from original Bulova cases, placed the movements in diamond-decorated cases and sold the watches under the trade name "Treasure Mates." The Bulova court found that the substitution of a new and different crown and case made the resulting product a new construction because the watch is no longer a Bulova watch but a new and different watch with a Bulova movement. Likewise, the modification of a less expensive model watch into a more expensive model by totally reconstructing it with generic parts, a conversion, creates a new product and is prohibited. Meece's addition of a part, either to enhance or repair a watch, does not make the watch a new or different product. The addition of a generic part to a Rolex watch does not make the Rolex a different brand of watch just as the addition of custom wheels to a Ford Mustang does not make the Ford Mustang a different brand of car.

As stated, Meece was enjoined from "performing any services which would involve injecting into commerce a watch bearing a Rolex mark which is reconstructed with generic replacement parts and which simulates a Rolex Submariner or other Rolex watch." The Trial Court then set out an example of the prohibited conduct by stating that Meece "is enjoined from receiving, or using from stock, stainless steel or other Rolex watches or movements and reconstructing them with generic parts simulating a Submariner or other Rolex watch." R.E. 4, p 11 ¶ (1); R. p 812. The Trial Court prohibited Meece from converting watches, but did not intend to prohibit enhancements.

Meece does not create a new product when he adds replacement parts to enhance or repair watches; repairing or adding parts to a watch does not make the watch a different brand of watch or give it the appearance of a more expensive model of watch. A new or used watch may be modified to enhance its appearance without modifying it to such an extent that it becomes an entire new watch.

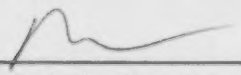
Meece's activities do not violate 15 U.S.C. § 1114 or 15 U.S.C. § 1125.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

NACOL, WORTHAM & ASSOCIATES

By: 

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APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 97-10991

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ROLEX WATCH USA, INC.,
Plaintiff-Appellant,
versus

ROBERT MEECE, doing business as
American Wholesale Jewelry
Defendant-Appellee.

Appeal from the United States District Court
for the Northern District of Texas

Before JOLLY, SMITH, and BARKSDALE, Circuit Judges.
RHESA HAWKINS BARKSDALE, Circuit Judge:

In this appeal by Rolex Watch U.S.A., Inc., from the injunction it obtained in its trademark infringement action, the primary issue is whether Rolex is entitled to recover profits and attorney's fees from Robert Meece, doing business as American Wholesale Jewelry. We AFFIRM in part, VACATE in part, and REMAND for further proceedings.

I.

Because many of the facts are undisputed, the following is drawn largely from stipulated facts and the district court's findings.

Rolex Watch U.S.A., Inc., is the exclusive distributor in the United States of watches and products sold under the registered trademarks of Rolex, which include "Rolex", "Oyster", "President", "Crown Device", "Datejust", "GMT-Master", "Day-Date", "Oyster Perpetual", and "Submariner". The "Crown Device"

1a

is a crown, consisting of five prongs, with a ball at the top of each, and an oval underneath, depicting the base of the crown. The Rolex trademarks are used in connection with watches and/or watch bracelets and related products. As of the trial in early 1997, and with the exception of the registration for "Submariner" (registered in July 1993), all of these marks had become incontestable pursuant to 15 U.S.C. § 1065 (generally, registrant's right to use registered mark becomes incontestable after mark has been in continuous use for five consecutive years subsequent to date of registration).

Rolex advertises its watches extensively in national magazines, and the watches are sold by authorized dealers, known as official Rolex jewelers. Rolex watches are known by the purchasing public as being of high quality, and Rolex consumers are generally considered to be sophisticated. In addition, there is a substantial market for used Rolex watches.

A Rolex watch consists of the watch movement; the case (which holds the movement) and winding mechanism; the bezel (a ring which is pressure-fitted over the crystal to seal it to the watch case, and which serves a water-proofing function); the dial; and the bracelet (also referred to as the band), including the clasp which, when opened, expands the bracelet so that it will fit over the wearer's hand. The watches, which are available in a number of styles, are made of stainless steel, stainless steel and gold, and gold. They are also available with diamond dials and/or diamond bezels.

New Rolex watches have a Rolex tag and a green factory sticker on the back of the watch case. For genuine Rolex bracelets, the clasps bear the Rolex "Crown Device" trademark on the exterior of the clasp; the "Rolex" trademark, on the interior. The winding mechanism bears the "Crown Device", which also appears on the dial, along with the "Rolex" trademark and other trademarks, such as "Oyster Perpetual Datejust". The "Rolex"

trademark is also stamped on the back of the bezels; therefore, that mark is not visible unless the bezel is removed.

Authorized Rolex dealers provide Rolex warranties with the sale of new Rolex products, and also provide services under the warranty. The warranty distributed with Rolex watches runs for one year from the date of purchase from an authorized Rolex dealer. Modification of Rolex watches by the addition or substitution of parts not provided or authorized by Rolex voids the Rolex warranty. And, it is the policy of Rolex not to service its watches which have been modified with non-Rolex parts.

Meece, doing business as American Wholesale Jewelry, has been in business since 1979, with average gross annual sales of $4.2 million. He sells parts designed for Rolex and other brands of watches, and also sells *new* Rolex watches, to which he adds non-genuine parts, such as diamond bezels. Meece warrants his products for one year, and will repair any products returned to him within a year.

Meece is not affiliated with Rolex, and his activities are not sanctioned or authorized by Rolex. His advertising is directed exclusively to the retail jewelry store trade, and he sells only to jewelers.

Meece's advertising brochures indicate that his replacement parts are not genuine Rolex parts; that he is not affiliated with Rolex; and that the addition of non-Rolex parts will void the Rolex warranty. However, he stipulated that the parts he sells do not bear any markings indicating that he is the source; and that he has not disclosed on invoices or tags either that his non-Rolex parts are not authorized by Rolex or that their addition voids the Rolex warranty.

As indicated, Meece deals with jewelers, *not* with the public. Indeed, he testified that he makes it a point to "hide from the public" and "avoid[s] them like the plague". In a typical transaction, an ultimate consumer requests products or services

from a retail jeweler, who in turn places an order with Meece. The jeweler receives the product from Meece and delivers it to the ultimate consumer.

But, Meece stipulated that he does not control how his non-Rolex parts or watches containing non-Rolex parts are sold to ultimate consumers; and that he has no way of knowing, when a jeweler places an order, whether there is an actual consumer. The district court found that subsequent potential purchasers of "reconstructed" watches, discussed *infra*, may not have the benefit of dealing with a jeweler or viewing Meece's advertising brochures.

Rolex first became aware of the sale of replacement parts by Meece in the early 1980s. It protested Meece's use of Rolex trademarks in his advertising, and demanded that he disclose in his advertising materials, as well as on tags and invoices, that his parts were not manufactured by Rolex and that their addition to Rolex watches voided the Rolex warranty. Meece responded that his "invoices [were] explicit, and buyers [were] reminded that altering the manufacturer's product, or use of unauthorized parts or accessories void[ed] the manufacturer's warranty". Additional correspondence between Rolex and Meece from December 1990 through March 1994 reveals further protests by Rolex and further assurances by Meece.

In 1994, Meece began distributing advertising which prominently pictured Rolex watches, and in which he offered to convert a used stainless steel Rolex watch into a new gold watch, using non-genuine parts. In these advertising materials, Meece used Rolex trademarks to identify non-genuine parts, and pictured an imitation crown design on non-genuine bracelets, in the same location as the Rolex "Crown Device" appears on genuine Rolex bracelets.

In response to this advertising, a Rolex investigator furnished a used stainless steel Rolex watch to a retail jeweler,

who in turn asked Meece to convert that used watch to a Rolex 18 karat gold "Submariner". Meece returned the altered watch to the jeweler with an invoice for $5,520. Rolex discovered that the watch no longer contained the original movement; instead, a much older movement, in need of repair, had been substituted.

On a second occasion, the jeweler ordered for Rolex's investigator one of Meece's 18 karat gold "Submariner" watches, as shown in Meece's advertisement, but without providing a watch for conversion. In response to that order, the jeweler received an 18 karat gold "Submariner" watch with a used genuine Rolex movement, a non-genuine bracelet, bezel, and case, and a genuine, but refinished, Rolex dial. The watch arrived in a genuine Rolex leather box bearing Rolex trademarks.

Moreover, shortly before trial in early 1997, Rolex's investigator purchased a new Rolex watch from Meece, which had been "enhanced" with the addition of non-genuine parts (diamond bezel and diamond dial). The watch had the green Rolex factory sticker on the back of the case; and it included a Rolex tag, a Rolex warranty (in a foreign language), and Rolex instructional materials, which Meece admitted he had copied and surrounded with a border of Rolex "Crown Device" designs.

Neither the watch, nor the accompanying literature, contained any markings to indicate the presence or source of non-genuine parts or any disclosures that Rolex would not warrant or service the watch. When confronted at trial with the watch, Meece testified initially that he was unaware of Rolex watches being shipped in such a manner; but later, he acknowledged that he was sending his products with the copied instruction sheet "to everyone" and shipped such enhanced new watches "with everything it came with", including warranties, tags, and boxes.

Meece stipulated that the quality of his non-genuine Rolex replacement parts is not as good as genuine Rolex parts; that he has had quality problems when bracelets have fallen apart in two

instances; that his bracelets are not the same weight as genuine Rolex bracelets; and that some of the diamonds he has used were of "poor quality". Moreover, he testified that he does not pressure-test watches after installing his non-genuine bezels.

At trial, in their briefs, and at oral argument, the parties have not been consistent in describing the types of Meece products at issue, which has caused considerable difficulty. Likewise, in its opinion, the district court referred to Meece's products as "individual replacement parts" and, interchangeably, as "reconstructed watches", "converted watches", and "modified Rolex watches". For purposes of clarity, we will refer to the products as follows:

1. **Parts**. The parts at issue are non-genuine parts (bezels, bracelets, buckles, clasps, and cases) designed solely for use on genuine Rolex watches, which Meece sold separately from complete watches. Although the bracelets are stamped "Made in Italy", none of the parts were marked to indicate their source was Meece or American Wholesale Jewelry.

2. **Enhanced New Watches**. This category consists of *new*, genuine Rolex watches, which Meece purchased and then "enhanced" by substituting non-genuine parts, such as diamond bezels and/or bracelets. It also includes *new*, genuine Rolex watches from which Meece removed the dials, drilled holes in them, added diamonds, refinished the dials, and then re-installed them on the watches.

Rolex claims that it first learned of such activities during discovery, when Meece produced invoices reflecting over $1.8 million in sales of *new* Rolex watches which had been enhanced to imitate more expensive Rolex watches by the substitution of lesser-quality, non-genuine parts. In its appellate brief, Rolex refers to this category as "reconstructed" watches, and asserts that the district court's injunction prohibits Meece from selling them. At oral argument, Rolex referred to this category of watches as

"brand new" genuine Rolex watches "enhanced" by Meece with non-genuine parts, and continued to maintain that the sale of such watches is enjoined.

The district court's findings of fact and conclusions of law do not expressly address this discrete category of watches. Instead, as discussed *infra*, the court appears to have used the term "reconstructed" to refer to both *old and new* Rolex watches to which Meece added or substituted non-genuine parts.

In his appellate brief, Meece maintains that the injunction does not prohibit the sale of *new* Rolex watches enhanced with non-genuine parts. According to Meece, enhancement of new watches does not constitute conversion of watches, and he does not "reconstruct" a watch when he adds replacement parts. At oral argument, Meece repeated his assertion that a "reconstructed" watch, within the meaning of the injunction, is the same as a "converted" watch, discussed below. As explained *infra*, we interpret the injunction as prohibiting, *inter alia*, the sale of enhanced new watches.

3. **Converted Used Watches**. This category includes *used* Rolex watches which Meece "converted" by recasing genuine old Rolex movements in non-genuine Rolex cases and substituting other non-genuine parts. The district court found that Meece had abandoned the practice of performing complete conversion services.

As noted, Meece asserted at oral argument that there is no difference between "converted" and "reconstructed" watches, and that this is the only category of watches to which the district court's injunction applies. As also noted, the district court appears to use the term "reconstructed" to refer to both *old and new* watches to which Meece has added parts, and the term "converted" to refer to Meece's practice of taking a stainless steel Rolex watch and adding non-genuine gold replacement parts "to produce a reconstructed watch that simulates a Rolex Submariner or other

watch".

4. **Non-Genuine Bracelets with Genuine Rolex Clasps**. This category consists of non-genuine bracelets on which Meece installed the customer's original, genuine Rolex clasp, bearing Rolex trademarks. This activity was enjoined by the district court; Meece claims that he no longer engages in it.

The Meece products having been defined, we can turn to the issues presented in district court. In its complaint, Rolex claimed, *inter alia*, that Meece's activities constituted trademark infringement *and trademark counterfeiting*, in violation of 15 U.S.C. § 1114(1); false designation of origin, false descriptions, and false representations, in violation of 15 U.S.C. § 1125(a); and unfair competition and dilution under Texas law. Meece countered with affirmative defenses of laches, acquiescence, and estoppel, as well as counterclaims premised on state law.

Following a hearing on Rolex's motion for a preliminary injunction, the district court, in August 1995, enjoined Meece and American Wholesale Jewelry from performing any services which would involve injecting into commerce a watch bearing a Rolex mark which is reconstructed with generic replacement parts and which simulates a Rolex watch. The court denied such relief with respect to Meece's sale of individual replacement parts and with respect to Rolex's claim of likely confusion resulting from the sale of watches that resembled a genuine Rolex watch -- they had the name "Geneve" on the dial and an emblem resembling a crown on the bracelet. The preliminary injunction noted that Meece had converted only six used Rolex watches, two of which had been sold to Rolex's investigator, and that Meece was no longer advertising such conversion services.

A two-day bench trial was held in February 1997. Rolex sought an injunction (1) prohibiting Meece's sale of enhanced new watches; (2) requiring Meece to identify the source of his replacement parts by engraving the bracelet clasp, by placing

disclosures on tags, labels, and invoices accompanying non-genuine parts, and by clarifying the disclaimer in his promotional materials; and (3) requiring Meece to obtain statements from his jeweler customers that the jewelers' customers had been advised of the non-genuine nature of the replacement parts. Rolex requested profits and attorney's fees with respect to the enhanced new and converted used Rolex watches and the non-genuine bracelets with genuine Rolex clasps.

In August 1997, the district court entered findings of fact and conclusions of law and issued a final judgment and permanent injunction. It rejected Meece's claims of laches, acquiescence, or estoppel; and held that Rolex had established a "substantial likelihood of confusion" regarding Meece's sale of "reconstructed" watches:

> The reconstructed Submariner watch bears a high degree of similarity to a completely genuine Rolex watch and a prospective purchaser of the watch would likely confuse the reconstructed watch with a genuine Rolex. American Wholesale's name does not appear on the generic parts. Also, the internal markings on the parts, such as "made in Italy", would not dispel the likelihood of confusion on a completely reconstructed watch.
>
> From the perspective of secondary purchasers, a watch reconstructed with generic parts from American Wholesale, bearing a Rolex trademark, would create a substantial likelihood of confusion.... Rolex faces a substantial threat of harm in the face of sales of such reconstructed watches by Meece.

Accordingly, Meece was enjoined from

> performing any services which would involve injecting into commerce a watch bearing a Rolex

> mark which is reconstructed with generic replacement parts and which simulates a Rolex Submariner or other Rolex watch. For example, [Meece] is enjoined from receiving, or using from stock, stainless steel or other Rolex watches or movements and reconstructing them with generic parts into watches simulating a Submariner or other Rolex watch.

In addition, the district court found that, although Meece's non-genuine bracelets were marked "Made in Italy" and "[a] sophisticated Rolex consumer would likely be aware that the band was not a genuine Rolex band", "the likelihood of confusion for secondary purchasers increases by using the original [genuine] clasp on the replacement band". Therefore, it enjoined Meece from "selling replacement bands to customers with the consumers' original clasps bearing the Rolex mark substituted onto the replacement band". And, the court enjoined Meece from "accompanying modified Rolex watches with copies of instructions bearing the Rolex mark".

On the other hand, the court found that Meece's "individual replacement parts do not pose the same potential for confusion as a completely reconstructed watch"; and that "the mark used by Meece [on non-genuine bracelet clasps] is not sufficiently similar to be likely to cause confusion with the Rolex mark". Moreover, it concluded that Meece's sale of individual Rolex replacement parts did not constitute contributory infringement, stating that there was "insufficient evidence to find that buyers of [Meece's] parts are using the parts to create simulated Rolex watches to infringe upon Rolex's trademarks"; and that the evidence did not establish "that Meece is inducing others to infringe or that he knows that he is selling replacement parts to people who are using the parts to make reconstructed, infringing watches".

Likewise, the court refused Rolex's request to require disclosure by Meece by engraving parts or on tags, labels, or invoices, and refused to enjoin Meece's use of Rolex trademarks to identify replacement parts in his advertising materials. The court concluded that, "[a]s long as it is clear to the purchaser that the replacement part is not an authentic Rolex part, ... there is no reason to enjoin [Meece] from stating that the replacement part fits a particular Rolex product".

Finally, the court held that Rolex was not entitled to an award of Meece's profits because "profits derived from the sale of converted infringing watches [were] *de minimis*"; and that, because Meece's infringing conduct was not deliberate, attorney's fees would not be awarded Rolex. (The state law claims by Rolex and Meece were dismissed.)

II.

Meece does not challenge the injunction, including the prohibition against "performing any services which would involve injecting into commerce a watch bearing a Rolex mark which is reconstructed with generic replacement parts and which simulates a Rolex Submariner or other Rolex watch". He contends, however, as discussed throughout, that the prohibition does not apply to his sale of enhanced new watches. And, not at issue is Meece being enjoined from "selling replacement bands to customers with the consumers' original clasps bearing the Rolex mark substituted onto the replacement band" and from "accompanying modified Rolex watches with copies of instructions bearing the Rolex mark".

On the other hand, Rolex contends that the district court erred (1) by failing to find that Meece's enhanced new watches, converted used watches, and bracelets with genuine Rolex clasps were counterfeit and by failing to accordingly award treble profits and attorney's fees; (2) by failing to find that Meece was a deliberate infringer and by failing to accordingly award Rolex profits and attorney's fees; (3) by finding that Meece's sale of

individual parts did not constitute contributory infringement; (4) by not enjoining Meece's use of his mark on non-genuine bracelets; (5) by not requiring disclosures with respect to Meece's sales of individual parts; and (6) by not enjoining Meece's use of Rolex trademarks to describe individual parts in his advertising materials.

"We review the district court's decision whether to grant or deny an injunction and the scope and form of the injunction for an abuse of discretion." *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 550 (5th Cir. 1998). Findings of fact are reviewed for clear error; conclusions of law, de novo. Fed. R. Civ. P. 52(a); *Pebble Beach, 155 F.3d at 537; Elvis Presley Enterprises, Inc. v. Capece*, 141 F.3d 188, 196 (5th Cir. 1998).

A.

Concerning the underlying liability required before profits and attorney's fees can be awarded, the Lanham Act provides in pertinent part:

> (1) Any person who shall, without the consent of the registrant --
>
> > (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive
>
> ...shall be liable in a civil action by the registrant for the remedies hereinafter provided....

15 U.S.C. § 1114(1)(a) (emphasis added). As noted, the district court's conclusion that Meece violated § 1114(1)(a) was based on

finding that, "[f]rom the perspective of secondary purchasers, a watch reconstructed with generic parts from American Wholesale, bearing a Rolex trademark, would create a substantial likelihood of confusion".

Remedies for violation of § 1114(1)(a) are found in 15 U.S.C. §§ 1116 (injunctive relief), 1117 (profits, damages, costs, attorneys' fees), and 1118 (destruction of infringing articles). At issue is § 1117.

Section 1117(a) provides, in pertinent part, that a successful plaintiff is entitled,

> subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.... If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

(Emphasis added.)

Our court has considered the following non-exclusive list of factors in determining whether an award of profits under § 1117(a) is appropriate:

> (1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off.

Pebble Beach, 155 F.3d at 554. See also *George Basch Co., Inc. v. Blue Coral, Inc.*, 968 F.2d 1532, 1540 (2d Cir.) (to recover profits under § 1117(a), the "plaintiff must prove that an infringer acted with willful deception"), cert. denied, 506 U.S. 991 (1992); *International Star Class Yacht Racing Ass'n v. Tommy Hilfiger, U.S.A., Inc.*, 80 F.3d 749, 753 (2d Cir. 1996) ("In order to recover an accounting of an infringer's profits, a plaintiff must prove that the infringer acted in bad faith"); *Lindy Pen Co., Inc. v. Bic Pen Corp.*, 982 F.2d 1400, 1405 (9th Cir.) ("Willful infringement carries a connotation of deliberate intent to deceive"), cert. denied, 510 U.S. 815 (1993); *Alpo Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968 (D.C. Cir. 1990) ("an award based on a defendant's profits requires proof that the defendant acted willfully or in bad faith"); *Frisch's Restaurants, Inc. v. Elby's Big Boy*, 849 F.2d 1012, 1015 (6th Cir. 1988) ("For a court to order an accounting ..., bad faith must be shown"); *Maltina Corp. v. Cawy Bottling Co., Inc.*, 613 F.2d 582, 585 (5th Cir. 1980)("district court properly ordered [defendant] to account to the plaintiffs for the profits it earned from its willful infringement").

Similarly, § 1117(a) expressly permits an award of attorney's fees only in "exceptional cases". "[T]he exceptional case is one in which the defendant's trademark infringement can be characterized as malicious, fraudulent, deliberate, or willful, and ... it has been interpreted by courts to require a showing of a high degree of culpability". *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1305 (5th Cir. 1997) (internal quotation marks and citation omitted); see also *Pebble Beach*, 155 F.3d at 555-56.

> But, for use of a counterfeit mark, § 1117(b) provides that, [i]n assessing damages under subsection (a) of this section, the court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is

> greater, together with a reasonable attorney's fee, in the case of any violation of section 1114(1)(a) of this title ... that consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark (as defined in section 1116(d) of this title), in connection with the sale, offering for sale, or distribution of goods or services....

(Emphasis added.)

Thus, under subsection (a), for willful or deliberate infringement, the district court may award profits "subject to the principles of equity"; and, in "exceptional cases", it may award attorney's fees. But, for counterfeiting cases, under subsection (b), the court "shall" award treble profits and attorney's fees, "unless the court finds extenuating circumstances".

As noted, the district court concluded that Rolex was not entitled to an award of profits under § 1117(a), because the "profits derived from the sale of converted, infringing watches [are] *de minimis*" and because Meece did not engage in deliberate infringement. But, it did not address, even by implication, whether Meece's activities constituted trademark counterfeiting and, therefore, did not consider whether Rolex was entitled to the remedies available under subsection (b), to include whether there were extenuating circumstances within the meaning of that subsection.

Rolex contends that the district court clearly erred by finding that Meece's profits were *de minimis*; that it erred by failing to address, under § 1117(b), whether Meece's activities constituted trademark counterfeiting and by failing, as a result, to award treble profits and attorney's fees; and that it was entitled to an award of profits and attorney's fees under § 1117(a), because Meece's activities at least constituted deliberate infringement.

1.

The Lanham Act "expressly confers upon the district judges wide discretion in determining a just amount o[f] recovery for trademark infringement". *Martin's Herend Imports*, 112 F.3d at 1304. "The purpose of section 1117 is to take all the economic incentive out of trademark infringement". *Intel Corp. v. Terabyte Int'l, Inc.*, 6 F.3d 614, 621 (9th Cir. 1993) (internal quotation marks and citations omitted); see also *Maltina*, 613 F.2d at 585 (agreeing with reasoning of Ninth Circuit that "awarding an accounting [of profits] would further Congress' purpose in enacting [§ 1117] of making infringement unprofitable"). "In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed." 15 U.S.C. § 1117(a).

Rolex produced Meece's invoices reflecting enhanced new watch sales of $1,813,748; "convert/converted" used watch sales of $26,475; and sales of non-genuine bracelets with genuine Rolex clasps of $5,940.

Meece testified that he had a gross profit of 13 percent and an overhead of seven percent, resulting in a before-tax profit of six percent. According to Meece, that six percent is comprised of five to five-and-one-half percent on accessories and less than one percent on new watches. He testified that his gross profit on accessories was between 20 and 25 percent; but, in his post-trial brief, he claimed that he had a 25 percent profit on diamond bezels, dials, and bands. Meece produced no documentary evidence to support those figures, and offered no evidence as to the nature or amount of his overhead expenses. Although he listed his financial statements as exhibits, he did not introduce them into evidence.

Rolex asserts that Meece's testimony is insufficient to support any deductions from sales and that it is therefore entitled to an award of the entire $1,846,163 in sales, trebled, because, as

discussed *infra*, it claims that the goods were counterfeit. Alternatively, based on Meece's testimony, Rolex calculates Meece's profits as follows:

$15,819.08 - 1% profit on $1,581,908 (new watches)
$57,960.00 - 25% profit on $231,840 (Meece parts added to new watches)
$ 6,618.75 - 25% profit on $26,475 (converted used watches)
$ 1,485.00 - 25% profit on $5,940 (Rolex clasps on non-Rolex bands)
$81,882.83 - TOTAL

Rolex asserts that, even accepting Meece's profit percentages, this amount is not *de minimis*.

As stated, Meece was enjoined from "performing any services which would involve injecting into commerce a watch bearing a Rolex mark which is reconstructed with generic replacement parts and which simulates a Rolex Submariner or other Rolex watch". Rolex does not challenge that portion of the injunction, which it interprets as prohibiting, *inter alia*, Meece's sale of enhanced new watches. Meece maintains, however, that the district court found no counterfeiting because it found no infringement as to enhanced new watches. According to Meece, the district court "did not enjoin the sale of watches that have merely been enhanced or repaired". Meece maintains that he does not "reconstruct" a watch when he adds parts, and that a "reconstructed" watch is the same as a "converted" watch.

The injunction would seem to encompass both enhanced new watches and converted used watches, because both types contain generic replacement parts and simulate genuine Rolex watches. And, both enhanced new watches and converted used watches seem to pose the same threat of harm to Rolex from the perspective of secondary purchasers; the district court found that

"a watch reconstructed with generic parts from American Wholesale, bearing a Rolex trademark, would create a substantial likelihood of confusion". But, in that Meece's sales of enhanced new watches exceeded $1.8 million and his profits from such sales exceeded $80,000, it is difficult to square that interpretation with the district court's finding that Meece's "profits derived from the sale of converted, infringing watches [are] *de minimis*".

Considering all of the evidence and, especially, the district court's findings regarding the likelihood of confusion with respect to secondary purchasers, we interpret the injunction as prohibiting the sale of enhanced new watches and converted used watches. That interpretation is also supported by case law interpreting the Lanham Act as prohibiting a party from making changes in integral parts of a product and then selling the modified product under the original trademark without full disclosure.

For example, in *Bulova Watch Co. v. Allerton Co.*, 328 F.2d 20 (7th Cir. 1964), the defendant removed genuine Bulova watch movements, bearing the Bulova trademark on the dial, from their original Bulova cases and placed the movements in diamond-decorated cases. *Id.* at 21. The defendant then sold the watches under the trade name "Treasure Mates". *Id.* The Seventh Circuit affirmed the district court's finding that the recasing operation resulted in "a different product"; and held that the district court erred by not enjoining the use of the Bulova trademark on the recased watches. *Id.* at 23-24. As noted, the bezel on a Rolex watch is a necessary and integral part of the watch and serves a water-proofing function. Obviously, bracelets and dials are also necessary, integral parts: a watch cannot be worn without a bracelet; and, the watch cannot serve its purpose of timekeeping without a dial.

Including Meece's sales of enhanced new watches, Rolex proved infringing sales of $1,846,163; based on Meece's testimony, his profits on those sales totaled $81,882.83. We reject

Rolex's contention that Meece produced insufficient evidence to establish deductions from gross sales. But, the district court clearly erred by finding those profits *de minimis*.

Nevertheless, it does not automatically follow that Rolex is entitled to treble profits. As stated, under § 1117 (a) , an award of profits requires proof of willful or deliberate infringement, and the decision whether to award profits is subject to equitable considerations. And, under § 1117 (b), treble profits are available *only* if the activity involves trademark counterfeiting, and the court does not find extenuating circumstances. "Under either subsection, awards are never automatic and may be limited by equitable considerations". *Intel*, 6 F.3d at 620 (internal quotation marks and citation's omitted).

2.

> For the seizure remedy for counterfeit goods, a "counterfeit mark" is defined as
>
> (i) a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered; or
>
> (ii) a spurious designation that is identical with, or substantially indistinguishable from, a designation as to which the remedies of this chapter are made available by reason of section 380 of Title 36....

15 U.S.C. § 1116(d). Similarly, § 1127 defines a "counterfeit" as "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark". 15 U.S.C. § 1127.

Again, Rolex claims that Meece's enhanced new watches, converted used watches, and bracelets with genuine Rolex clasps are counterfeit. In selling those items, Meece did not copy or

imitate Rolex's trademarks; quite to the contrary -- those items *bear original Rolex trademarks*. For example, Rolex asserts that, once Meece added non-genuine parts to genuine Rolex watches bearing original Rolex trademarks, the watches on which those trademarks appear are no longer Rolex's product and are, therefore, counterfeit within the meaning of §§ 1116(d) and 1127. Accordingly, it contends that, under § 1117(b), it is entitled to treble profits and attorney's fees.

Because Meece's items in question bore original Rolex trademarks, rather than imitations or copies of those trademarks, they would not seem to be "counterfeit" in the literal sense. Nevertheless, other courts have found that similar uses of genuine trademarks constitute counterfeiting. In *Westinghouse Elec. Corp. v. General Circuit Breaker & Electric Supply, Inc.*, 106 F.3d 894 (9th Cir.), cert. denied, ___ U.S. ___, 118 S. Ct. 155 (1997), the defendant sold used Westinghouse circuit breakers after reconditioning them and attaching labels bearing the Westinghouse trademark. The Ninth Circuit noted that "[t]he original Westinghouse labels are not themselves 'counterfeits' in the literal sense", but concluded, nevertheless, that the products were counterfeit. *Id.* at 900. "When an original mark is attached to a product in such a way as to deceive the public, the product itself becomes a 'counterfeit' just as it would if an imitation of the mark were attached." *Id.*

Likewise, in *General Elec. Co. v. Speicher*, 877 F.2d 531, 534 (7th Cir. 1989), the Seventh Circuit concluded that the defendant's placement of non-General Electric products in boxes that General Electric had stamped with its registered "GE" trademark constituted trademark counterfeiting. And, similarly, in *Intel*, 6 F.3d at 619-20, the Ninth Circuit concluded that the defendant's practice of purchasing genuine Intel math coprocessors and relabeling and selling them as faster and more expensive coprocessors constituted counterfeiting. "When the chip genuinely

from Intel was marked with a speed designation Intel would not have given it, the chip became a counterfeit Intel 80287-10 instead of a true Intel 80287-6." *Id.* at 620. See also *Joy Manufacturing Co. v. CGM Valve & Gauge Co., Inc.*, 730 F. Supp. 1387, 1396 (S.D. Tex. 1989) (reconditioned valves sold under plaintiff's trademark found counterfeit).

There is considerable evidence that Meece's activities with respect to the items in issue constitute trademark counterfeiting. For example, new, genuine Rolex watches were modified by Meece with non-genuine parts to make them resemble more expensive Rolex watches. Although Rolex was still the source of the watches, it was not responsible for the non-genuine diamond bezels added by Meece, or for refinishing and placing diamonds in the genuine Rolex dials, or for any diamonds Meece added to the bracelets. Rolex did not perform or authorize the modifications, and its warranty was voided by Meece's activities. Meece, not Rolex, stood behind the watches; but the trademark suggested otherwise.

In this regard, Rolex introduced evidence that Meece distributed enhanced new watches without any markings or disclosures that would reach ultimate consumers or secondary purchasers; and that the watches contained the Rolex factory seal and the Rolex tag and were distributed in genuine Rolex boxes, with winding instructions copied from a Rolex booklet. Meece stipulated that he does not control how watches containing non-Rolex parts are sold to the ultimate consumer; and that, when he sells to retailers, he has no way of knowing if there is an actual consumer.

Accordingly, we must remand this action for the district court to determine whether Meece's use of Rolex trademarks on the enhanced new watches, converted used watches, and non-genuine bracelets with genuine Rolex clasps caused them to be "counterfeit" within the meaning of §§ 1116(d) and 1127; and, if

they were, it should, pursuant to § 1117(b), award profits (trebled) and attorney's fees to Rolex, unless it finds "extenuating circumstances".

3.

In addition, Rolex asserts that it is otherwise entitled to an award of profits and attorney's fees under § 1117(a), because Meece's activities at least constituted deliberate infringement. In finding no deliberate infringement, the district court stated that Meece "attempted to 'ride the line' but did not intend to cross it". We review this finding for clear error.

Rolex contends that the following evidence proves deliberate infringement: (1) Meece's false representation that he complied with all Rolex requests for disclosures as to individual replacement parts; (2) his substitution of an older Rolex movement when converting the used stainless steel Rolex watch submitted by Rolex's investigator; (3) his sale of over $1.8 million in enhanced new Rolex watches accompanied by the Rolex warranty (which Meece knew was void), the Rolex factory sticker, and the Rolex tag; (4) his sales of enhanced new watches accompanied by copied Rolex instruction sheets with a border of Rolex "Crown Device" designs; (5) his sale of enhanced new Rolex watches in original Rolex boxes; (6) his sale of enhanced new Rolex watches without any disclosure to consumers as to the presence or origin of the non-genuine parts; (7) his repeated use of marks resembling the Rolex "Crown Device" mark, including a five-prong crown displayed in his catalog years after he allegedly discontinued use of that design; (8) his use of Rolex trademarks ("President", "Oyster", etc.) to identify his non-genuine watch parts, before and after suit was filed; (9) his advertisement of his conversion services for over a year after entry of the preliminary injunction, which Meece understood as enjoining such services; and (10) his placement of genuine Rolex clasps, bearing the Rolex trademarks, on non-genuine bracelets. Rolex posits that there is no explanation

for Meece's conduct other than to profit from the use of Rolex marks in a manner that deceives consumers, takes sales away from Rolex, and damages its reputation.

Rolex maintains that, in other cases, similar activities have been found to constitute deliberate infringement. It cites *Joy Manufacturing Co. v. CGM Valve & Gauge Co., Inc.*, 730 F. Supp. 1387 (S.D. Tex. 1989), where the defendant used unauthorized nameplates bearing the plaintiff's mark on valves that defendant refurbished to look like new, and failed to mark the valves as used or reconditioned. *Id.* at 1391. The court found the conduct willful, entitling plaintiff to trebled profits under § 1117(a), and a fee award under the exceptional case provision. *Id.* at 1395-96.

The conduct of the defendant in *Joy* was much more egregious than Meece's. In *Joy*, the court found that, as a result of other lawsuits, the defendant was fully aware that its practices were unlawful and that, even after being enjoined from such acts in a number of cases, the defendant continued to use counterfeit nameplates of other valve manufacturers on its reconditioned valves.

Rolex also relies on *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1384-85 (9th Cir. 1984), where the defendants sold genuine Sealy mattresses together with non-Sealy foundations with identical fabric covering. The combined mattress and foundation appeared to be a matched set, and the defendants advertised the product as a Sealy mattress and matching foundation. There was evidence that retail salesmen made no effort to correct consumers' mistaken impressions that the foundation was a Sealy product. The Ninth Circuit affirmed the district court's finding the conduct to constitute willful and deliberate, bad faith infringement, justifying an award of attorney's fees. The court noted that "[t]here was substantial evidence tending to show that [defendants] manufactured and sold their look-alike foundations deliberately to deceive consumers and to

take advantage of Sealy's brand identification". *Id.* at 1384. Here, there is no evidence that Meece intended that his products would be passed off as Rolex products, and his advertising indicated that his products were not Rolex products and that American Wholesale was not affiliated with Rolex.

As the district court noted, Rolex and Meece had co-existed for over ten years. Meece advertised and sold his products only to retail jewelers, not to ultimate consumers. In his advertising materials, he made efforts to disclose to his customers (retail jewelers) that he was not affiliated with Rolex and that the addition of his parts to genuine Rolex watches voided the Rolex warranty. There is very little evidence that Meece made a concerted effort to palm off his products to his customers (retail jewelers) or to ultimate consumers as Rolex products. Accordingly, we conclude that the district court did not clearly err by finding no deliberate infringement. As a result, it did not err by refusing to award profits and attorney's fees under § 1117(a).

B.

Rolex maintains that the district court erred by not finding that Meece's sales of unmarked non-genuine parts designed to fit Rolex watches constituted contributory infringement. In conjunction, it urges that Meece should have been enjoined to include disclosures to ensure that such parts are not being used for infringement purposes by his customers. The court ruled that the evidence did not support finding "that Meece is inducing others to infringe or that he knows that he is selling replacement parts to people who are using the parts to make reconstructed, infringing watches".

The doctrine of contributory infringement is discussed in *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853-54 (1982) (emphasis added):

> [L]iability for trademark infringement can extend beyond those who actually mislabel goods with the

> mark of another. Even if a manufacturer does not directly control others in the chain of distribution, it can be held responsible for their infringing activities under certain circumstances. Thus, if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.

1.

Accordingly, Meece is liable for contributory infringement by distributing parts if he "continue[d] to supply [his parts] to one whom [he knew] or ha[d] reason to know is engaging in trademark infringement". *Id.* at 854. Rolex points to Meece's admissions that his replacement parts are made to fit Rolex watches and that he knows of no other watch that they fit; and that, even with his 15 years' experience, Meece could be fooled as to whether a Rolex watch contains non-genuine parts. Rolex asserts that, accordingly, Meece had reason to know that his non-genuine parts, designed to fit only Rolex watches, were destined to end up in infringing watches.

The district court did not clearly err by finding no contributory infringement. There was no evidence that Meece sold large quantities of parts to any single retailer. Instead, he sold only one or, at most, a few parts at a time to numerous jewelers. He testified that there was no group of jewelers or any particular jeweler who purchased a large number of replacement parts. Although Meece had no control over what the jewelers did with the parts he sold to them, there is no evidence that he continued to supply parts to jewelers he either knew, or had reason to know, were engaging in trademark infringement.

In any event, Rolex asserts that the district court erred by not requiring adequate disclosures to identify non-genuine parts, claiming that disclosures are necessary to prevent contributory infringement. Rolex urges that Meece should disclose on tags and invoices that his replacement parts do not originate with Rolex and that Rolex will not guarantee or service watches containing such parts. And, because tags and invoices may be discarded by the jewelers to whom Meece sells the parts, Rolex maintains that Meece should also obtain statements from jewelers advising that they have disclosed to the jeweler's customers (ultimate consumers) the same information as disclosed to the jewelers on Meece's tags and invoices. Rolex asserts that permanent engraving of Meece bracelets could be accomplished inexpensively, and that statements from jewelers regarding disclosures to consumers could be easily accomplished.

Meece responds that most of the requested disclosures already appear in his advertising materials, warranties, and invoices; that disclosing on tags that his replacement parts do not originate with Rolex and that Rolex will not guarantee or service watches containing such parts is "impractical and impossible due to the volume of parts sold, the size and shape of the parts, and the difficulty in attaching a document to a dial or link"; and that engraving his non-genuine bracelets is impractical, because he obtains them from different suppliers, and it would destroy the value of the jewelry. He contends further that an injunction limiting the sale of replacement parts to jewelers who furnish written statements that they have disclosed to their customers that Meece's replacement parts do not originate with Rolex and that the addition of such parts voids the Rolex warranty, is impractical, because his orders are taken over the telephone and shipped to jewelers; and that such a requirement would create more bookkeeping duties, "as he would have to match each statement to

the order to which it relates", and he fills approximately 3,500 orders per year. He asserts also that requiring a written statement in advance of shipping would encourage customers to buy elsewhere to avoid both the trouble of providing written statements and the attendant delays in shipping.

Because the no contributory infringement finding is not clearly erroneous, the district court did not err by not requiring such disclosures.

C.

Next, Rolex contends that the district court erred by not finding that Meece's mark on non-genuine bracelet clasps is likely to cause confusion with the Rolex "Crown Device" mark, which appears on the clasps of genuine Rolex bracelets.

Likelihood of confusion is a question of fact; we review only for clear error. *E.g., Pebble Beach, 155 F.3d at 537; Elvis Presley Enterprises*, 141 F.3d at 196; *Moore Business Forms, Inc. v. Ryu*, 960 F.2d 486, 489 (5th Cir. 1992).

> In determining whether a likelihood of confusion exists, this court considers the following nonexhaustive list of factors: (1) the type of trademark allegedly infringed, (2) the similarity between the two marks, (3) the similarity of the products or services, (4) the identity of the retail outlets and purchasers, (5) the identity of the advertising media used, (6) the defendant's intent, and (7) any evidence of actual confusion.... No one factor is dispositive, and a finding of a likelihood of confusion does not even require a positive finding on a majority of these "digits of confusion".... In addition to the listed factors, a court is free to consider other relevant factors in determining whether a likelihood of confusion exists.

Elvis Presley Enterprises, 141 F.3d at 194; see also *Pebble Beach*, 155 F.3d at 543. An eighth factor, the degree of care employed by consumers, was added to the list in *Sunbeam Products, Inc. v. West Bend Co.*, 123 F.3d 246, 257 (5th Cir. 1997), cert. denied, ___ U.S. ___, 118 S. Ct. 1795 (1998). And, in that case, our court held: "In determining the likelihood of confusion, the district court must apply the 'digits of confusion' test". *Id.*

Rolex introduced evidence that Meece has used three different marks on his non-genuine bracelets. The first was a five-prong crown, very similar to the Rolex "Crown Device". He discontinued using that mark in 1988, and sold fewer than 50 bracelets bearing it. The second mark was a three-prong crown. After an objection by Rolex, Meece discontinued using that mark two years prior to trial, and did not sell any bracelets bearing it. Meece's current mark is a four-sided figure, with no prongs; but, it is wider at the top than at the bottom and resembles the shape or outline of a crown. The border is smooth and the center has a matte finish.

Rolex's expert testified that the similarity of the Meece and Rolex marks should be evaluated under the following guidelines: (1) the designs should not be compared side by side, because that is not the context in which they would be seen by consumers; (2) consumer recollection of the Rolex "Crown Device" is imperfect; and (3) the overall context of the design, including its use on bracelets that look identical to Rolex bracelets, and its placement in the same location on the bracelets, should be considered. Rolex's expert considered Meece's current mark likely to cause confusion with the Rolex "Crown Device".

Rolex notes that the same design used by Meece was the subject of an action brought by Rolex against one of Meece's customers. In *Rolex Watch, U.S.A., Inc. v. Michel Co.*, No. 96-0805 (S.D. Cal. 1997) (unpublished), the court found that the "trapezoidal" design was likely to cause confusion with the Rolex

"Crown Device", stating that "the overall impression created by Defendants' imitation crown is likely to cause confusion among prospective purchasers who carry an imperfect recollection of the Rolex crown".

But, in the case at hand, the district court found that Meece's current mark "is not sufficiently similar to be likely to cause confusion with the Rolex mark". Although the marks are similar in shape and size, they are not identical. Meece's mark is a four-sided figure, the top of which is wider than the bottom. It has a smooth border, and a matte finish in the center. As stated, the Rolex "Crown Device" is a five-pronged crown, with a ball at the top of each prong, and an oval underneath, depicting the base of the crown. However, "similarity of appearance is determined on the basis of the total effect of the designation, rather than on a comparison of individual features". Moore, 960 F.2d at 490. Meece's mark is placed on the exterior of the clasps of non-genuine bracelets which are very similar to genuine Rolex bracelets; and, it is placed in the same location that the Rolex "Crown Device" is placed on the exterior of the clasps of genuine Rolex bracelets.

Meece contends that, because Rolex purchasers are very sophisticated, they are not likely to confuse his mark with that of Rolex. He also points out that his bracelets are stamped "Made in Italy", and claims that potential purchasers would know that Rolex watches are not made there. But, the "Made in Italy" marking is on the interior of the bracelet clasp. Moreover, even Meece testified that he did not know where genuine Rolex bracelets are made, so it seems unlikely that his customers (jewelers) or their customers (ultimate consumers) would be informed by that designation that the bracelets are not genuine.

The district court erred by failing to consider and weigh all of the digits of confusion. Furthermore, it should have considered the factors identified by Rolex's expert in determining whether

Meece's mark is confusingly similar to that of Rolex. Accordingly, on remand, the district court should consider, in the light of all of the appropriate factors, whether Meece's mark is likely to cause confusion with the Rolex "Crown Device".

D.

Rolex acknowledges that Meece is entitled to advise consumers that he is selling replacement parts for Rolex watches; but, it asserts that the district court erred by failing to enjoin Meece's use of Rolex trademarks to identify his non-genuine parts. Specifically, Rolex complains of Meece's use of various Rolex trademarks ("Submariner", "Oyster", "Presidential Style") in his sales literature to identify his non-genuine parts.

> In refusing to enjoin such use, the district court stated:
>
> There is no principled difference between selling generic or custom bands or bezels made specifically for a Rolex watch from, for example, selling a custom high-performance carbur[e]tor made specifically to fit a Ford Mustang. Common sense indicates that a replacement part must be specifically designed to replace the original part. A part not specifically designed to replace the original part is simply not a replacement part. As long as it is clear to the purchaser that the replacement part is not an authentic Rolex part, ... there is no reason to enjoin [Meece] from stating that the replacement part fits a particular Rolex product.

Rolex apparently concedes as much, but asserts that Meece is not using its trademarks in that manner; instead, according to Rolex, he is illegally using the Rolex trademarks to identify his products.

The district court did not err by refusing to enjoin Meece's use of Rolex trademarks to identify the Rolex products

corresponding to his replacement parts. He uses the trademarks in his advertising materials sent to retail jewelers. Those materials adequately disclose that the parts are non-genuine; that Meece is not affiliated with Rolex; and that the addition of those parts to genuine Rolex watches voids the Rolex warranty.

In a footnote, Rolex asserts that, even absent a finding of likely confusion, Meece's use of Rolex marks violates the Texas anti-dilution statute, Tex. Bus. & Com. Code § 16.29. We refuse to address this claim, because it is not adequately briefed. Fed. R. App. P. 28(a)(6).

III.

For the foregoing reasons, the judgment is VACATED with respect to the findings that Meece's profits on infringing sales are *de minimis* and that his mark is not sufficiently similar to be likely to cause confusion with the Rolex "Crown Device" mark; and the conclusion that Rolex is not entitled to recover profits and attorney's fees. In all other respects, the judgment is AFFIRMED. The case is REMANDED for further proceedings consistent with this opinion.

AFFIRMED in PART, VACATED in PART, and REMANDED.

JERRY E. SMITH, Circuit Judge, dissenting:

The majority presents a careful and well-researched opinion. I respectfully dissent, however, from the decision to vacate the district court's findings that Meece's profits on infringing sales were *de minimis* and that his mark is not sufficiently similar to be likely to cause confusion with the Rolex "Crown Device" mark, and also to vacate the district court's conclusion that Rolex is not entitled to recover profits and attorney's fees. I would affirm, essentially for the reasons stated by the district court in its comprehensive findings of fact and conclusions of law. As the district court stated, its judgment "attempts to strike an equitable balance that protects the rights of

Rolex, yet recognizes the legitimate interest of Meece to provide a valuable service to the public." I would hold that the district court was successful in that attempt.

UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 97-10991

D.C. Docket No. 3:95-CV-1058-T

U.S. Court of Appeals
file-stamped
"OCT 21 1998"

ROLEX WATCH USA INC

Plaintiff-Appellant

U.S. District Court
file-stamped
"DEC -3 199"

v.

ROBERT MEECE, doing business as American Wholesale Jewelry

Defendant-Appellee

Appeal from the United States District Court for the Northern District of Texas, Dallas.

Before JOLLY, SMITH, and BARKSDALE, Circuit Judges.

JUDGMENT

This cause came on to be heard on the record on appeal and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now here ordered and adjudged by this Court that the judgment of the

District Court in this cause to the District Court for further proceedings in accordance with the opinion of this Court.

IT IS FURTHER ORDERED that each party bear its own costs on appeal.

TERRY E. SMITH, Circuit Judge, dissenting:

ISSUED AS MANDATE: DEC 01 1998

Clerk, U.S. Court of Appeals

Signed "Larry M. Moore"

Deputy

IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 97-10991

ROLEX WATCH USA INC

Plaintiff - Appellant

v.

ROBERT MEECE, doing business as American Wholesale Jewelry

Defendant - Appellee

Appeal from the United States District Court for the Northern District of Texas, Dallas

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ON PETITION FOR REHEARING

Before JOLLY, SMITH and BARKSDALE, Circuit Judges.
PER CURIAM:

IT IS ORDERED that the petition for rehearing filed in the above case is DENIED.
ENTERED FOR THE COURT:

Signed "Rhesa H. Barsdale

United States Circuit Judge

REHG-2

CLERK'S NOTE:
SEE FRAP AND LOCAL RULES 41 FOR STAY OF THE MANDATE.

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

ROLEX WATCH U.S.A., INC.,

Plaintiff,

v.

ROBERT MEECE d/b/a AMERICAN WHOLE JEWELRY,

Defendant.

file-stamped
"AUG 11 1997"

No. 3:95-CV-1058-T

ENTERED ON DOCKET
8-12-97 PURSUANT
TO F.R.C.P. RULES
58 AND 79a

FINAL JUDGMENT
AND
PERMANENT INJUNCTION

This action came before the Court on a non-jiury trial concluded February 11, 1997, Honorable Robert B. Maloney, presiding, and the issues having been duly considered and a decision having been rendered:

It is **ORDERED** and **ADJUDGED** that Defendant Robert Meece d/b/a American Wholesale Jewelry and all persons acting in concert with American Wholesale are enjoined from:

(1) performing any services which would involve injecting into commerce a watch bearing a Rolex mark which is reconstructed with generic replacement parts and which simulates a Rolex Submariner or other Rolex watch.

For example, American Wholesale is enjoined from receiving, or using from stock, stainless steel or other Rolex watches or movements and reconstructing them with generic parts into watches simulating a Submariner or other Rolex watch. American Wholesale's "Geneve" watch, by way of example, does not fall under the injunction because it is not confusingly similar to the genuine Rolex because the Geneve watch bears the mark "Geneve" on its face;

(2) selling replacement bands to customers with the consumers' original clasps bearing the Rolex mark substituted onto the replacement bands. Clasps on replacement bands must bear a mark other than a Rolex mark or bear no mark at all when they are delivered to the customer; and

(3) accompanying modified Rolex watches with copies of instructions bearing the Rolex mark.

It is **FURTHER ORDERED** and **ADJUDGED** that Plaintiff Rolex Watch U.S.A., Inc., take nothing on its claims for damages under trademark infringement and unfair competition.

It is **FURTHER ORDERED** and **ADJUDGED** that the claims of Plaintiff Rolex Watch U.S.A., Inc., for common law fraud, misappropriation, conversion, violation of the Texas Theft Liability Act, as well as its claim for damages based on lost sales under its remaining causes of action, are **dismissed with prejudice**.

It is **FURTHER ORDERED** and **ADJUDGED** that Defendant's counterclaims for unfair competition, under both federal and state law, and for breach of contract are **dismissed with prejudice.**

It is **FURTHER ORDERED** and **ADJUDGED** that Defendant's counterclaims for malicious prosecution and intentional infliction of emotional distress are **dismissed with prejudice.**

It is **FURTHER ORDERED** and **ADJUDGED** that all relief not specifically granted herein is denied.

Signed this 11th day of August, 1997.

Signed "Robert B. Maloney"

Robert B. Maloney
U.S. District Judge